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# SMALL AND MEDIUM ENTERPRISE COMPETITIVENESS: INTERNATIONALIZATION STRATEGY

Business model optimization of *Prego Gourmet*

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**#924**

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## Executive summary

*Prego Gourmet* is a fast food restaurant which sells refined versions of a traditional Portuguese dish inside shopping centers in the area of Lisbon. The company is at the beginning of its expansion strategy. This work project is a prospective analysis on what the company should do to in order to optimize its business model and grow in Portugal during 2013. A mixed strategy of franchising and owned stores is purposed, because it allows the company to achieve quick development at lower costs. Learning curves associated with franchising will further facilitate the process of internationalization.

**Keywords:** *Prego Gourmet, Portugal, fast food, business processes, optimization, franchising.*

## Purpose of the work, scope and methodology

My aim in this work project is to purpose a plan for optimization of the business model in order to grow in Portugal through a mixed strategy of franchising and company owned stores during 2013. At the same time another work project is being made, purposing an Internationalization Plan to Brazil to start operations there by June of 2014 during the FIFA World Cup. The work projects are complementary and represent two stages that the company will face in the near future in its expansion strategy

To start we had meetings with *Prego Gourmet* partners and kept in contact through e-mail all over the work in order to fully understand the company. After making an internal analysis, I studied the Portuguese market, by using specialized reports, consulting websites and analyzing the answers of an online survey[1]. Finally, after integrating all the analysis, I purposed an implementation plan and made some recommendations. All the analysis and recommendations were supported with theoretical background and case-studies.

[1] The survey had 319 complete answers. For more details please see Exhibit 2.

## Business description

*Prego Gourmet* is a fast-food restaurant where the main dish is a unique refined version of a traditional Portuguese steak which can be eaten as a sandwich or not. The restaurant is strategically positioned inside shopping centers in Lisbon and it is now a project in expansion, with six stores and the perspective of many more.

David Igrejas, a graduated engineer with an enormous passion for cooking, decided to go abroad to study culinary in the Art Institute of Fort Lauderdale[2]. When he came back to Portugal he founded the locally famous *Foral da Vila* restaurant in Cascais. In the middle of the economic crisis he suddenly noticed that a less conventional dish was selling more than the others: a steak made with arugula, parmesan and balsamic vinegar called *Prego Gourmet*. David Igrejas realized the potential of the product and tested new recipes in another restaurant: *The Bay*. To found Prego Gourmet he then joined with a friend, João Cotta Dias, formed in ISEG, with a strong financial background on companies like Ernst & Young, DOT ONE and Sécil. David Igrejas became the executive chef and João Cotta Dias the financial director and general manager.

The two partners found an investor, Pedro Almeida[3], and opened the first restaurant in Amoreiras Plaza in June of 2011. The business was structured to a time of crisis, because even though people are consuming less, the concept of affordable quality attracts the traditional restaurant consumers to shopping malls - in the fast food industry this concept is usually known as fast casual dining[4]. Accordingly, *Prego Gourmet* has a unique store environment and a complete offer, with a menu composed by refined versions of pork, veal, chicken, salmon steaks and salads, mixed with several ingredients. The garnishes include French fries, rice, salad, carrot and celery (Exhibit 1).

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[2] The Art Institute of Fort Lauderdale is a private, coeducational applied-arts college located in southeast urban Fort Lauderdale, Florida. For more information please check http://www.artinstitutes.edu/fort-lauderdale/culinary-802.aspx.

[3] For a short biography please see: http://expresso.sapo.pt/pedro-de-almeida-percurso-do-magnata-portugues-dos-petroleos=f533178

[4] Fast casual dining restaurants inside shopping centers offer high quality, fast service and a refined atmosphere for affordable prices, without having full table service. The hamburger chain *h3* is the most successful fast-casual dining restaurant in Portugal.

Until the end of 2011 *Prego Gourmet* opened two restaurants in Lisbon, employing 14 people and generating revenues of 270 000€. In 2012 the company opened four more stores[5], employs now 50 people and is expecting revenues of 1 900 000€. *Prego Gourmet* is now waiting for vacancy in more shopping centers in Lisbon, but besides growing in Portugal the plan of the two young entrepreneurs who founded the company includes the international market, as a way to show to the world some of the best Portuguese food.

## Vision, Mission and Strategic objectives

*Prego Gourmet*'s vision is to become a reference in the fast food industry with a refined version of a traditional Portuguese dish. The mission of the company is to serve a high quality and healthy meal in a short period of time at a very competitive price.

*Prego Gourmet*'s strategic objectives for the next five years include sustained growth (owned stores and franchising) and attention to critical success factors like being competitive at costs and prices, having excellent quality in products and service, brand recognition and innovation[6]. By the end of 2013, the company aims to be operating in Portugal with 18 stores, including some franchises. After that, *Prego Gourmet* wants to go abroad so that by the year of 2015 it will be operating in two foreign countries (Brazil and USA) with a chained stores' model of franchising.

## Industry Mapping (Exhibit 4)

By mapping the industry, it is possible to understand the different players and the connection *Prego Gourmet* has with them. This is important both for the internal and the external analysis.

**Suppliers:** The suppliers are crucial for the company. The products have to be always fresh and in perfect conditions, because the quality of the raw materials affects the quality of the process, the quality of the finished product and, ultimately, the customer satisfaction. In order

[5] At this time *Prego Gourmet* is in C.C. Alegro, Amoreiras Plaza, Atrium Saldanha, Campo Pequeno, Cascais Shopping and Oeiras Parque.
[6] I will further develop on the relation between the critical success factors and the business processes.

to have flexibility and assure the desired level of quality, *Prego Gourmet* has chosen not to have any long-term contract with specific suppliers.  So far the company has relations of trust with ten suppliers and they all deliver their products directly to the stores. *Prego Gourmet* constantly monitors the market in order to find suppliers accordingly to their will in sharing some of the risk, solving the problems alongside with them, as if they were partners, so they can build together competitive advantages. The company is also constantly evaluating its suppliers.

**Shopping Centers:** *Prego Gourmet* stores are strategically positioned inside shopping centers, where there is a large concentration of customers willing to consume. There is also a strong competition forcing the company to continuous quality improvement and differentiation. Inside shopping centers *Prego Gourmet* has to pay rents and obey to specific rules.

**Market regulators:** Every new restaurant requires a license from the Municipal Council to open. Afterwards, in order to guarantee that all the legislations are followed, the restaurants have to be supervised by the ASAE (Autoridade da Segurança Alimentar e Económica).

**External auditors:** *Prego Gourmet* has several external auditors. *Ative* is in charge of assuring that all HACCP procedures are followed (Exhibit 5). *Pure resources* is responsible for assuring health and hygiene. *Rentokil* is responsible for auditing and treatments anti-insects and animals. Finally, *Cliente Mistério* is firm which provides customer's feedback and perceptions.

**Competitors:** *Prego Gourmet* has both indirect and direct competitors. Every restaurant outside a shopping center is an indirect competitor. The direct competitors are all the restaurants in the food courts of shopping centers where *Prego Gourmet* is. The most direct competitor, however, is *h3*, because it the most successful company with a fast casual dining concept in Portugal and has managed to have a strong relationship with its customers, by offering great quality for competitive prices like *Prego Gourmet* does. The survey we made (Exhibit 2.7) shows that if there was no *Prego Gourmet*, consumers would opt mostly for *h3* (42%), but also for *Noori Suhsi* (16%) and for *Mc Donalds* (13%).

**Substitutes:** The substitutes represent a threat to *Prego Gourmet*, because people are opting more for them due to budget constraints. According to our survey (Exhibit 2.2), 47% of the people usually eat at home, 17% bring lunch from home and 16% chose canteens or supermarkets, with ready-to-eat meals.

**Final Customer:** *Prego Gourmet* owns all of its stores, with a business to customer model. The final customer of the company is typically more demanding than the usual fast food consumer and seeks quality for competitive prices, with a fast and outstanding customer service, valuing also the refinement of the experience and the variety of offers.

## Competitive advantages

The industry mapping shows a lot of competitors inside shopping centers and several substitutes. Hence, to survive in the fast food industry, *Prego Gourmet* needs to have sustained competitive advantages and in order to better understand them I developed a VRIO analysis. This framework is used to evaluate the resources and capabilities of the firm, explaining if they contribute or not to sustained competitive advantage.

**Table 1 – VRIO framework**

| | Value | Rarity | Inimitability | Competitive implications |
|---|---|---|---|---|
| **Excellent relation with suppliers** | ✓ | ✗ | ✗ | Parity |
| **Customer service** | ✓ | ✗ | ✗ | Parity |
| **Brand name and reputation** | ✓ | ✗ | ✗ | Parity |
| **Concept innovation** | ✓ | ✓ | ✗ | Temporary advantage |
| **Managerial knowledge and skills** | ✓ | ✓ | ✓ | Sustained advantage |
| **Production process efficiency** | ✓ | ✓ | ✓ | Sustained advantage |
| **Quality and wide range of products** | ✓ | ✓ | ✓ | Sustained advantage |
| **Financial capacity** | ✓ | ✓ | ✓ | Sustained advantage |

(Source: primary data)

The fast casual dining concept of *Prego Gourmet* is an innovation controlled by few companies in the Portuguese fast-food market, because it is extremely hard to offer great quality products for affordable prices in a short period of time. *Prego Gourmet* further offers a greater variety of products than the competition. As the *prego* is one of the most emblematic Portuguese dishes and has an extreme emotional value to the Portuguese consumer, *Prego Gourmet* is giving back to *prego* the status that it deserves in a moment where many international fast food chains seem to be taking over in Portugal. In fact, eating in *Prego Gourmet* is an improved ritual with a clean and refined aesthetic where everything still suggests the traditional Portuguese feeling of the ritual.

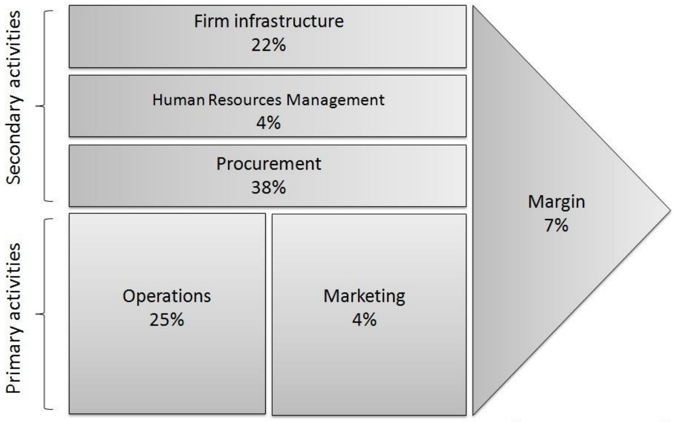
In order to operate with the concept mentioned above, *Prego Gourmet*'s managers negotiate frequently with its suppliers and use their knowledge and skills to operate with an efficient production process, with strict measurements defined to assemble each meal. Finally, with a strong investor (Pedro Almeida) as partner, *Prego Gourmet* is a business financially well-structured and disciplined, with the financial capacity to expand to the main shopping centers of the country and to consider international growth.

To conclude, the value proposition of *Prego Gourmet* lies in the innovation in the product and in the very strong price and quality relationship. There are many important resources that allow the company to offer such value for the customers. The most rare and difficult to imitate are the managerial knowledge and skills, the efficiency of the production process, the financial capacity and the quality of the wide range of different products and ingredients. Nevertheless, what really makes the difference for the company, more than individual resources, is the combination of resources – that's what really has value, is rare and difficult to imitate. As so, *Prego Gourmet* has competitive advantage, but the company will only be able to sustain it with organizational improvements: in order to grow through franchising the company needs to optimize and standardize processes[7].

## Value chain Analysis

In order to purpose an optimization plan to the business model of *Prego Gourmet,* I will first analyze the company internally. The following value chain represents how the costs are allocated in *Prego Gourmet* through the activities from the moment it receives inputs until delivering the product. The analysis goes deeper and identifies also in which activities is possible to reduce costs, through optimization of business processes, in order to increase the margin.

**Table 2 – Value Chain of *Prego Gourmet***




(Source: Prego Gourmet)

The chain of activities of *Prego Gourmet* is divided into primary and secondary activities. The primary activities are Operations and Marketing, which account for 25% and 4% of the total costs respectively. The first cost is related with everything that is necessary to assemble a final meal, like worker's salaries, food preparation, store's maintenance, wastes and cleaning. Finally, *Prego Gourmet* relies mostly on word-of-mouth and the small expenditures in marketing are related with a loyalty card that offers a free meal or a t-shirt to regular customers in the tenth meal.

The secondary activities are firm infrastructure, human resources and innovation, and procurement. Infrastructure refers to costs like management, rents, consulting, auditing, legal

[7] As I purpose in this work project.

and financial issues and it accounts for 22% of the total costs. Human resources and innovation accounts for 4% and it represents the wages of the top executive human resources and also new product development, as the company from time to time develops new recipes or improves the existing ones. Procurement costs are associated with food raw materials' costs. As quality is something essential, the food costs are high and that is why procurement represents 38% of the total costs[8].

In order to assure quality *Prego Gourmet* wants to choose its suppliers and will not outsource that activity. Nevertheless, with strong negotiation and contract management capabilities, it is possible to centralize relations in order to reduce administrative and logistics costs. As the company grows, procurement costs may reduce 3% to 5%, increasing the margin. Operationally there is also margin to reduce costs, by optimizing business processes and reducing waste. In all the other activities costs are not expected to decrease because franchising will bring firm infrastructure costs and with time marketing and innovation will become more and more important.

## Process analysis and improvement

After understanding that the company may reduce costs in procurement and operations, the process analysis helps to identify exactly which business processes of the company can be improved and how, with the purpose of cost reduction and standardization.

### a) Processes Matrix Analysis

The Processes Matrix analysis identifies *Prego Gourmet*'s business processes and explains which of them have impact on critical success factors. From this analysis it is possible to understand the level of importance of the processes.

[8] This aspect contributes to the high power of the suppliers in the Porter 5 Forces' analysis. Procurement costs are allocated to each ingredient according to exhibit 6.

**Table 3 – Processes Matrix**

| Business processes \ Critical success factors | Competitive at costs | Competitive at prices | Product quality | Customer service | Brand recognition | Innovation | Total of impacts |
|---|---|---|---|---|---|---|---|
| Management and supervision | X | X | X | X | | | 4 |
| Procurement | X | X | X | | | | 3 |
| Operations | X | X | X | X | | | 4 |
| Training | X | | X | X | | | 3 |
| Marketing and sales | | X | | X | X | X | 4 |
| New product development | | | | | X | X | 2 |

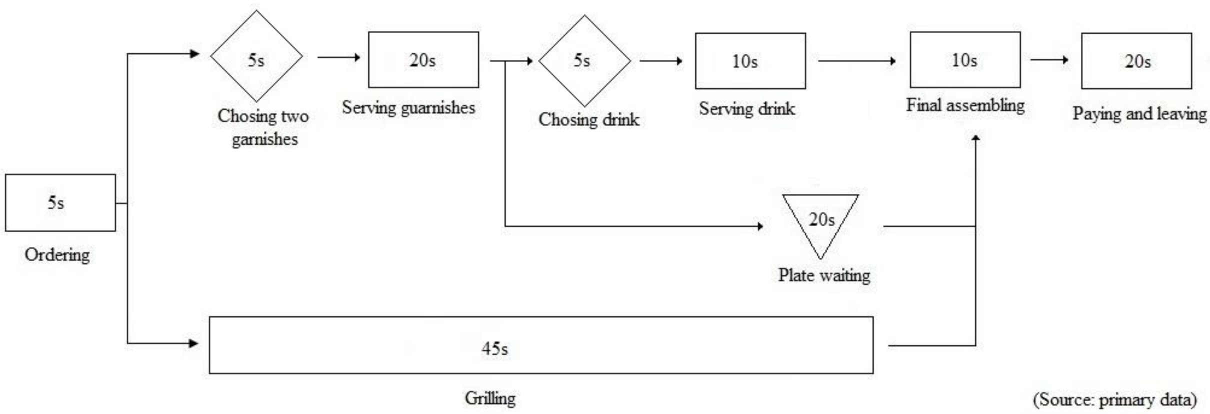
(Source: primary data)

The critical success factors for the company are: competitive at costs, competitive at prices, product quality, customer service, brand recognition and innovation. It is possible to understand that the business processes which have more impact on the critical success factors are Management and Supervision, Operations and Marketing and Sales. Also very important are Procurement and Training. New Product Development has impact on a small number of critical success factors, but it is also important because, alongside with Marketing and Sales, it is the only process with impact on brand recognition and innovation.

## b) Workflow analysis

The workflow analysis represents how the company transforms inputs into outputs, helping to understand the operations at each business unit. The following workflow is a simplification of the network of activities performed to serve the client, from the moment he orders.

**Table 4 – Workflow of the production process**




(Source: primary data)

Before starting to serve its clients, *Prego Gourmet* receives the raw materials daily at each store directly from the suppliers and prepares them. When the customers arrive they grab a board and follow a defined path, in which they are in constant interaction with the employees. The bottleneck of the process is the grilling activity which lasts about 45 seconds. While one of the employees takes the steaks from a plastic drawer and starts grilling, others serve the garnishes. Afterwards, the plate goes to a buffer and another employee serves the drinks. When these activities finish, it is still necessary to wait 5 seconds because the process can only continue after the grilling is done. In the end the *prego* needs to have a final assembling and then the customer is ready to pay and leave with its plate. The cycle time of the process is 80 seconds.

The employees have to be competent and kind and prepared to work in every position, to avoid service breaks due to absence for sickness or vacations. Moreover, the employees are further responsible to assure that the hygiene measures of HACCP are followed. As a conclusion, the employees have many different responsibilities, ultimately affecting the experience of the customer.

### c) GAP analysis

The GAP analysis compares the actual performance of the company with a desired future performance, identifying what needs to be done to bridge the gap between them in terms of strategy, capabilities and processes, by measuring product attributes like price, time, quality and variety, and process attributes like cost, time, quality and flexibility.

#### i) Desired future performance

*Prego Gourmet* should be operating in Portugal during 2013 with a mixed strategy of company owned-stores and franchising, offering a large variety of good quality meals for affordable prices in a short period of time.

*Prego Gourmet* should have strong contract management capabilities, negotiating toughly and flexibly with shopping centers, suppliers and franchisees. The company should support and control its franchisees, integrating all the stores, in order to grow and become a more dominating player in the Portuguese industry.

The company should have a good marketing communication and a strong brand in Portugal for customers to perceive clearly that *Prego Gourmet* offers refined versions of a traditional Portuguese dish and is able to serve a large variety of healthy and quality meals at a very competitive price in a short period of time. Moreover, the company should have loyal customers, spending an average of 9€ to 10€ at each meal. *Prego Gourmet* should also have market research programs, for measurement purposes and to assure innovation is aligned with the needs of the customers[9].

Finally, *Prego Gourmet* should have less 3% costs in procurement, operating with a margin of 10%[10]. The company should have an excellent service and an optimized production process, spending 40 seconds at the bottleneck, to assure that the grilling does not lasts longer than the activities which are being performed at the same time.

### ii) Actual performance

Strategically, the company is only operating in the area of Lisbon with owned-stores and without franchising.

*Prego Gourmet* has procedures manuals, but not well codified for a franchising model. Furthermore, the company only has some brand recognition in Lisbon and the customers do not clearly perceive its positioning. For instance, with five salads on its menu the company has several healthy options, but according to our survey (Exhibit 2.6) 59% of the customers do not associate *Prego Gourmet* with healthy food. Furthermore, customers spend an average

[9] *Mc Donalds* innovates accordingly to new trends in the market. In Portugal, for instance, the company launches several times a campaign called "Chicken Lovers". In fact, Portuguese consumers are increasingly receptive to chicken fast food because they perceived it as being healthier than burger fast food. (Euromonitor International, 2011a)

[10] These values come from the value chain analysis.

of 8€ each meal[11]. Market research is weak as the company relies only on the feedback provided by *Cliente Mistério*[12].

The company has some flaws in terms of procurement, with ten different suppliers delivering directly the raw materials, complicating their reception and billing daily at each store. The production process has a bottleneck activity with 45 seconds and the quality of the service is perceived by the customers as good, but still not very good[13].

### iii) Bridging the gap

In order to start franchising in 2013, *Prego Gourmet* will have to start looking for possible franchisees from the beginning. At the same time it is fundamental to negotiate with shopping centers, to assure the company can open new stores.

To bridge the capabilities gap, the company will have to define new manuals for the franchisees, a new training program and also support and control programs. *Prego Gourmet* will further have to engage in a brand communication program to communicate better its positioning. To assure continuous market research the company should outsource this activity.

Operationally, to reduce costs in procurement, *Prego Gourmet* should search for a Distribution Center, a unique supplier responsible for several other suppliers in charge of receiving, storing and delivering all the raw materials daily, facilitating the reception and the billing at each *Prego Gourmet* store. As the quality of the raw materials affects the final product and ultimately the customer satisfaction, *Prego Gourmet* managers may still be responsible for monitoring the market and choosing the suppliers to which the Distribution Center will buy, as long as a contract is made.

A new training program is also necessary focused on reducing 5 seconds in the grilling activity, increasing the average spending per customer and assuring that there are no delays all

[11] "Prego de Alcatra no prato" is the most sold menu. It costs 7,95€.

[12] This is the company before mentioned in the industry mapping. *Cliente Mistério* offers a service in which random customers go to the stores and give their feedback about it.

[13] According to our survey (Exhibit 2.5), from 1 (very bad) to 5 (very good), customers evaluate customer service at Prego Gourmet with an average of 3.99.

over the production process. The new training program should also assure that employees are nice and kind, with attendance and speaking classes. In order to define and implement the training program successfully and accordingly to the requisites, *Prego Gourmet* should rely on a professional training company. In order to increase the average spending per customer, new product development will probably be necessary to introduce in the menu starters, deserts, etc.

## Porter's 5 Forces – Fast food Industry in Portugal

After analyzing internally the company, it is important to analyze the external environment in order to understand what influences profitability in the industry. A very strong framework to do that is the Porter's 5 Forces.

### a) Threat of new entry

The economic situation in Portugal is nowadays a barrier to the fast food industry, as difficult access to credit is inhibiting development through franchising and limiting investment in new outlets[14]. It is also important to consider as a barrier the high taxes[15] and high rents that companies pay in the industry. Furthermore, new players will face the competition of many strong brands and will have to be cost efficient, to compete on price, and have innovative products, as the fast food market is already saturated with many different options. These strong and established brands also have advantage, because shopping malls usually give priority to them and not to new entrants. A company like *Prego Gourmet* will benefit with scale and learning curves associated with negotiation and contract management capabilities.

To counter this aspect, a new trend in the Portuguese fast food industry is appearing: well-known players are capitalizing on their good relations with shopping malls to introduce new brands, appealing to new customers[16]. The threat of new entries further increases because when compared with other industries, a new outlet does not require a large capital

[14] "Some players were even obliged to delay their plans of new openings." (Euromonitor International, 2011a)

[15] VAT rose in the sector from 13% to 23%.

[16] It's the case of *h3* and *Empadaria do Chef* or *Wok to Walk* and *Vitaminas*.

investment[17]. Finally, the switching cost for customers in the industry are negligible and thus new players with a new value proposition, like *Prego Gourmet*, will certainly attract customers.

Overall the threat of new entry is medium.

### b) Threat of substitution

The threat of substitution was traditionally low. However, the economic crisis is obliging people to opt for substitutes. These substitutes include eating at home, homemade meals or ready-to-eat meals[18]. On the other hand, higher-income customers can no longer afford eating out in full service restaurants every day and shift to shopping centers, especially because nowadays they can find options like *Prego Gourmet* with good quality for affordable prices[19].

Overall, the threat of substitution is medium/low

### c) Buyers Power

Fast-food buyers have some power, because they have almost no switching cost and their choice is no more than a matter of personal taste that can vary from one day to the next. Nevertheless, *Prego Gourmet* invests in loyalty programs and is working on creating a strong brand in order to retain its customers. Moreover, when taking in consideration the high transaction volumes, the impact of one consumer on revenues is very small. Finally, even though fast food customers are price sensitive, the fast casual dining concept attracts a new type of customer which is not so sensitive to price.

Overall the buyers have low bargaining power to influence prices and therefore their power is moderate/low.

### d) Suppliers power

Suppliers play a key role, because if they fail to deliver the defined requisites, companies face huge problems. For a company like *Prego Gourmet*, quality and price are essential and it is

[17] A new Prego Gourmet outlet in a shopping center costs around 150 000€.

[18] Eating at home is a trend gathering pace (Euromonitor International, 2011b).

[19] "The crisis enabled fast casual dining to gain consumers in full-service restaurants in 2010" (Euromonitor International, 2001a).

thus necessary to have strong relations with all the suppliers. Some companies in the industry were able to reduce its procurement costs because they have a distribution center[20]. Furthermore, suppliers may have many clients in the foodservice sector and thus have some bargaining power because they are not strictly dependent of fast food. Suppliers of undifferentiated products, however, do not have that much power, because companies can easily switch to other suppliers. As so, the power of the suppliers is medium/high.

### e) Competitive rivalry

The fast-food industry in Portugal is somehow attractive because of its growth[21]. However, there are some factors that increase competition which are important to consider: lack of switching costs for consumers, many players with many different offers[22], possibility of price competitions and strong brands. In fact, the greatest competition in the industry is related with brand power[23]. As it was explained above, in accordance to our survey (Exhibit 2.7) the most direct competitor of Prego Gourmet is *h3*, however the company has to consider also the competition of international brands like *Mc Donalds*, *Burguer King*, *Pizza Hut* or *Joshua's Shoarma*, and national brands like *Noori Sushi*, *Go Natural*, *Empadaria do Chef* or *Loja das Sopas*. All of this creates a competitive rivalry with a high power.

### f) Strategy implications

Michael Porter suggests that after understanding what influences profitability in the industry, it is necessary to develop a strategy for enhancing the company's long term profits[24]. *Prego Gourmet*, alongside with other companies with a fast casual dining concept, is in a favorable position to reshape the forces, because when these companies are together in the same food court they attract the demanding customers of full service restaurants. As a fast casual dining chain, *Prego Gourmet* is thus positioned above the traditional fast food chains in terms of

[20] One of the key partners of H3 is its Distribution Center.
[21] "Fast food is expected to grow by a 2% CAGR in constant value terms to reach EUR792 million by 2015" (Euromonitor International, 2011a).
[22] In 2010 the number of outlets in the fast food industry of Portugal was 2805. (Euromonitor International, 2011a)
[23] *Mc Donalds*, for instance, spent $650.8 million on advertising globally in 2009(Datamonitor, 2010a)
[24] (Porter, Michael, 2008)

quality and price and will have to clearly communicate it. The company may eventually contribute to re-shape the way the industry of fast-food is seen in Portugal, proving that fast food can also serve quality and healthy meals. Future strategy for franchising and expansion should not consider these types of companies only as competitors, but also as partners[25].

## SWOT and TOWS analysis of *Prego Gourmet* in Portugal

After the internal and the external analysis, the SWOT analysis gives a picture of the strengths and weakness of the company and also of the opportunities and threats in the external environment. The TOWS analysis helps to explain how the strengths and weaknesses of the company can be used to maximize opportunities and minimize threats in the external environment.

**Table 5 - SWOT AND TOWS**

| | **Strengths** | **Weaknesses** |
|---|---|---|
| | S1. Effective (cost and time) standardized confection<br>S2. Great variety (healthy and gourmet options)<br>S3. Strong quality vs. price relationship<br>S4. Industrialization of a traditional Portuguese product<br>S5. Good financial structure (borrowing capacity and financial discipline)<br>S6. Fast casual dining concept<br>S7. Modern décor and refined atmosphere<br>S8: Home delivery | W1: Need of market research<br>W2: Need of stronger and defined training program<br>W3: Low number of shops<br>W4: Lack of brand awareness<br>W5: Some processes need to be standardized<br>W6: No distribution center |
| **Opportunities** | **S-O Strategies** | **W-O Strategies** |
| O1. Increase of fast-food consumption in Portugal<br>02. Trends towards healthy food<br>03. Growing receptivity to fast casual dining chains<br>O4. Processes standardization and franchising<br>O5. Consumers switch from full-service restaurants to fast food<br>O6: Growing demand for home delivery | **SO1:** S6, S3, S7 –01, 03, 05<br>**SO2:** S2 – O2<br>**SO3:** S1 – O4<br>**SO4:** S8 – O6 | **WO1:** W3, W4, W2, W5, W6 – 04<br>**WO2:** W4 – 01, 05 |
| **Threats** | **S-T Strategies** | **W-T Strategies** |
| T1: Many strong brands<br>T2: Many competitors<br>T3: Substitutes<br>T4: Portuguese financial crisis<br>T5: Fast food unhealthy connotation | **ST1:** S2, S4, S7 – T2<br>**ST2:** S5-T1, T4<br>**ST3:** S3, S8 – T3<br>**ST4:** S2-T5 | **WT1:** W1, W3 – T1, T2 |

(Source: primary data)

[25] After establishing in Portugal the company wants to expand to Brazil. In Brazil the fast casual dining concept remains negligible, because when Brazilians look for quality they tend to opt for full-service or kilo restaurants (Euromonitor International, 2012b). Nevertheless, this can be seen as an opportunity to explore, especially if we consider the fast success that h3 is having in São Paulo.

## a) Strategies using Strengths to maximize Opportunities

**SO1.** Fast food consumption is growing in Portugal and the fast casual dining chains are having a very good receptivity[26]. *Prego Gourmet* is maximizing these opportunities because it is a fast casual dining chain inside shopping malls. As it was already mentioned the economic crisis in Portugal is making full service restaurant consumers shift to fast casual dining restaurants and *Prego Gourmet* will have to assure every day great quality for affordable prices, creating a strong brand and using its modern décor and refined atmosphere to attract this type of customers.

**SO2.** Furthermore, besides the convenience of a quick quality service for a reasonable price, Portuguese fast food consumers are more demanding and increasingly concerned with healthy issues[27]. *Prego Gourmet* has a great variety of healthy options, with five salads as main dish and garnishes made of lettuce, carrot and celery. To maximize this opportunity the company will have to transmit better this message. At the stores the only picture shows a *prego* with rice and lettuce – the company could eventually show also a picture of a salad. Other possible strategies include pop-ups, point of sale displays or information on the board paper. The company can create a stronger and more interactive presence in social networks[28] or have testimonials in its website, generating word-of-mouth about it. *Prego Gourmet* may even try to appear in specialized magazines or apply to a stamp certification.

**SO3.** It is also important to consider the opportunity of process standardization and franchising. In fact, some companies in Portugal are using a mixed strategy of own stores and franchising as a way to grow quickly[29]. To succeed in this business it is critical to have an

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[26] "Value sales of fast casual dining increased 3% in 2010"; "Consumers have been showing a growing receptivity to fast casual dining chains, in part because of their casual atmosphere, modern décor, affordable prices and healthy food offerings" (Euromonitor International, 2011a).

[27] "Fast food increasingly responds to the health trend in addition to the convenience trend" (Euromonitor International, 2011a).

[28] Prego Gournet is only present in Facebook.

[29] "Some chained operators have been choosing mixed development strategies, expanding both through company-owned stores and franchising." (Euromonitor International, 2011b)

efficient cost and time production process and in this particular aspect *Prego Gourmet* is improving in order to attract potential franchisees.

**SO4.** Finally, as demand for home delivery is increasing[30], *Prego Gourmet* allows the customers to ask at the stores to take a way and has a partnership with *No Men*u[31] which is probably going to become more important with time. Some consumer foodservice operators in Portugal are even developing special offers for take away products.

### b) Strategies using Strengths to minimize Threats

**ST1.** Operating in the food courts of shopping centers, *Prego Gourmet* faces many competitors with different options. In order to differentiate from the competition *Prego Gourmet* has some distinctive aspects, like its unique image and its concept centered in a refined version of a traditional Portuguese dish. Another important strength lies in the variety of options *Prego Gourmet* offers. In order to constantly beat competition the company may consider some new product development investments in order to appear with more innovative options in its menus.

**ST2.** In this industry there are many strong brands and that is a huge threat for a company like *Prego Gourmet*, which has almost no investments in promotion. A company like *Mc Donalds*, for instance, carries national advertising on television to promote its new products[32]. To face this threat *Prego Gourmet* will have to rely mostly on word-of-mouth: a way to generate it is to use its borrowing capacity to establish itself in the main shopping centers of Lisbon and grow quickly to the rest of the country through franchising. Having an investor like Pedro Almeida as partner is a very important strength, especially in a time where the economic situation of the country implies difficult access to credit[33].

[30] "Increased levels of dining and entertaining at home contributed to a growing demand for home delivery and takeaway services" (Euromonitor International, 2011b).
[31] No Menu is a national home delivery company: www.nomenu.pt.
[32] (Euromonitor International, 2011a)
[33] "Due to the current economic situation of the country, which led to growing difficulties in obtaining credit to open new outlets and created investment indecision, in 2009, some chained operators such as Pasta House saw their plans of franchising development delayed because of a lack of potential franchisees." (Euromonitor International, 2011b)

**ST3.** In a time of crisis Portuguese consumers have constrained budgets and opt to save more on food than in other areas such as entertainment[34]. Thereby, eating at home is a new trend for many consumers and a threat that can be minimized with the partnership *Prego Gourmet* has with *No Menu*. The company, however, will have to study a new type of package as the current one does not keep the meat and especially the french-fries in the perfect conditions. Furthermore, *Prego Gourmet* price vs. quality relationship is expected to attract customers tired of homemade and ready-to-go meals.

**ST4.** The Portuguese customers still see the fast food as unhealthy[35]. To minimize this threat, *Prego Gourmet* made a menu composed of several healthy options and assembles the meals right in front of its customers, in order to show them its fresh and quality products. To keep minimizing this threat *Prego Gourmet* will have to assure people understand that its offer is not unhealthy by communicating it better with a stronger brand management. Finally, new product development will always have to take healthy concerns into consideration.

### c) Strategies that minimize Weaknesses by taking advantage of Opportunities

**WO1:** *Prego Gourmet* is still in Lisbon and has only six stores, but the project was conceived with internationalization in mind. Before going abroad the company will have to grow in Portugal, define a stronger training program and standardize/optimize processes in order to control costs and attract potential franchisees. As the company grows a Distribution Center may become a source of competitive advantage. By taking advantage of the opportunities of franchising *Prego Gourmet* will be able to grow quickly, opening more stores and generating more brand awareness.

**WO2:** *Prego Gourmet* is benefiting from an increase in fast food consumption and from the shift that full service restaurant consumer are making towards fast casual dining restaurants.

[34] According to a study developed by Instituto Superior de Ciências Sociais e Políticas (Euromonitor International, 2012a)
[35] Euromonitor International, 2012a

The company will have to be able to continue taking advantage of these opportunities, as a way to reach more customers and generate more brand awareness.

### d) Strengths that minimize weaknesses by avoiding threats

**WT1:** In order to avoid the competition of many strong brands, *Prego Gourmet* will have to empower its brand by opening more stores and communicating it better. Investing in market research will also be very useful, because when a company understands the consumers better than the competition it will be able to correct any possible mistakes and explore new opportunities faster.

## Franchising of Prego Gourmet in Portugal

What comes from the analysis made so far is that with an optimization of the business processes *Prego Gourmet* is in a favorable position to take advantage of franchising. Franchising is an agreement and an ongoing relationship between the franchisor and the franchisee, in which the franchisor grants the right to the franchisee of exploring a company according to its entire business format in return for a franchising fee and a monthly percentage of sales (royalties).

To *Prego Gourmet* the main advantage of the franchising model is quick development at lower costs, contributing to brand recognition. In fact, in the Portuguese fast food industry many companies operate successfully with a franchising model[36] and in the international market the potential of franchising has been brought into focus by the high profile success of companies such as *Mc Donalds* and *KFC*[37]. The business model optimization that I purpose in this work project is very important in order to attract potential franchisees and start franchising with no differences of quality in the products and service in all stores.

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[36] *Mc Donalds*, for instance, had 80% of its outlet network run by franchisees. Other brands such as *Vitaminhas e Companhia*, *Burguer Ranch*, *Joshua's Shoarma* and *Loja das Sopas* have been opting for development through company-owned stores and franchising. (Euromonitor International, 2011a)

[37] (Welch, L.S., et al, 2007)

To start franchising in 2013 *Prego Gourmet* should carefully select a franchisee granting him exclusive rights for opening stores in the north of the country[38]. Prego Gourmet may start searching in its network of connections, but this selection is so important that *Prego Gourmet* should consider hiring a franchising consulting company. Afterwards the franchisee will need training, support and control[39]. *Prego Gourmet* will have to train its franchisee in store operations, marketing, finance and human resources, keeping regular communication with him. *Prego Gourmet* should further help to select locations and set up stores, providing written policies, specifications, training materials and operations manuals. The franchisee should be responsible for recruiting and training employees. After the opening of the first franchising store, *Prego Gourmet* should provide support and advice, monitoring and evaluating the franchisee's performance with regular visits. Finally, in order to benefit from having many stores and not the opposite, *Prego Gourmet* should share knowledge and transfer best practices between stores (owned and franchised)[40] with regular meetings, from which new approaches could appear, generating impact in innovation and operating efficiency.

The objective is to have 4 franchising stores operating by the end of the year.

## Implementation plan

After all the analysis, the 4M's approach (Men, Money, Minute, Memo) identifies, enlightens and schedules the activities, defining an implementation plan for the year of 2013.

### a) Men

Firstly, *Prego Gourmet* will need a new manager to focus on marketing and sales, as this is an essential business process and none of the two present managers has a marketing background and mindset. The main focus of this manager should be on brand management, as brand

[38] For more information about the franchise agreement see Exhibit 7.

[39] In order to understand the importance of training, supporting and controlling the franchisees, I used *Domino's Pizza* case as a benchmark. To learn more about it please check Exhibit 8.

[40] *Yum!* Is an American company responsible for brands like *KFC, Taco Bell* and *Pizza Hut*. According to Jack Welch, the famous ex-CEO of General Electrics, the major success factor of the company comes from the share of knowledge and transfer of practices adjusted to each case. (Welch, J., 2005).

recognition is one of the less developed critical success factors[41]. A new marketing manager also allows other managers to focus on franchising issues.

The company will then need to find a franchisee for the north of the country and sign a contract. *Prego Gourmet* should make a very careful selection, evaluating the background of the candidates and their managerial and financial perspectives.

Finally, the company will need new employees for each store. Store managers, however, if possible should transit from older stores to assure they have the required experience.

### b) Money

The first new cost is related with wages to the new marketing manager. More costs are related with the opening of new stores, employee's wages and also the outsourcing of market research. The company should open up to 8 new owned stores (each one costs around 150 000€). In order to define a new training program successfully and accordingly to the requisites, *Prego Gourmet* will have to pay to a professional training company

Finally, there are also the franchising costs. The company will have to pay to a franchising consulting company and incur in some costs to write new manuals and define a training program for its franchisee. To sign this contract (and also a contract with a Distribution Center) some royalties will have to be paid to a lawyer's office.

On the other hand, new stores are expected to bring new revenues and the franchisee will also have to pay to *Prego Gourmet* a franchising fee and regular royalties.

### c) Minute

As *Prego Gourmet* already presented itself to the most important shopping centers, the company should continue to open new owned stores in the area of Lisbon all over the year according to vacancies. Table 6 represents all the other activities, considering that the

[41] According to the process matrix brand recognition is a critical success factor. According to the SWOT analysis, the company only has some brand recognition in Lisbon.

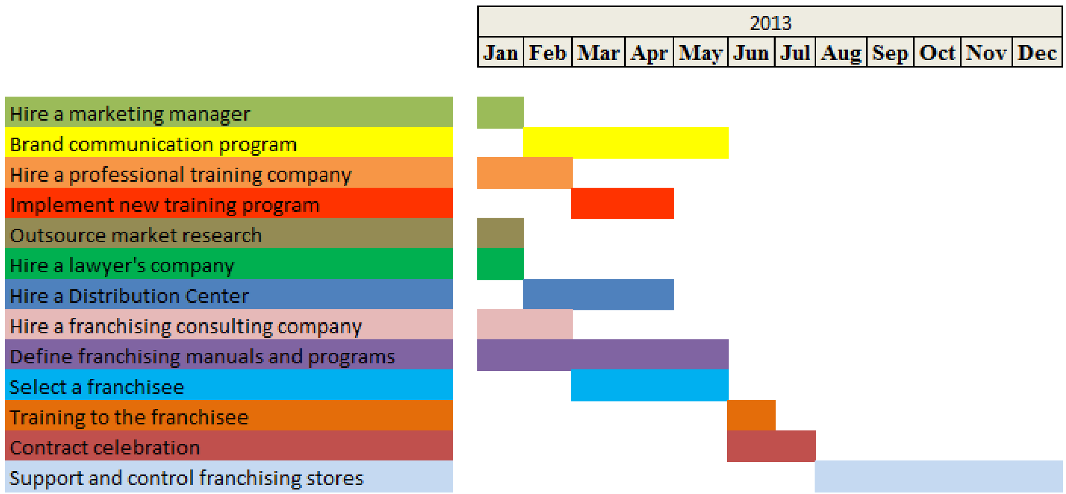
franchisee is responsible for training new employees and setting up stores with the support and control of *Prego Gourmet*. Table 7 is the activities' schedule.

**Table 6 – Timeline of each activity**

| | Activity | Duration | Dependency |
|---|---|---|---|
| **1** | Hire a Marketing Manager | 1 month | |
| **2** | Brand communication program | 4 month | Act. 1 |
| **3** | Hire a professional training company | 2 month | |
| **4** | Implement new training program | 2 months | Act. 3 |
| **5** | Outsource market research | 1 month | |
| **6** | Hire a lawyer's company | 1 month | |
| **7** | Hire a Distribution Center | 2-3 months | Act. 6 |
| **8** | Hire a franchising consulting company | 2 month | |
| **9** | Define franchising manuals and programs | 4-5 months | |
| **10** | Select a franchisee | 2-3 months | Act. 6,8 |
| **11** | Training to the franchisee | 1 month | Act. 9,10 |
| **12** | Contract celebration | 1-2 months | Act. 6,10 |
| **13** | Support and control franchising stores | 5-x months | Act. 12 |

(Source: primary data)

**Table 7 – Activities' schedule**[42]




## d) Memo

The following table represents a set of initiatives that have to be taken to achieve the objectives. The table includes also measurements to monitor if the company is achieving or not the specific targets.

**Table 8 - Memo**

[42] According to the implementation plan purposed in the other work project, Prego Gourmet will have to start its internationalization process to the Brazilian market by October 2013.

| | Objectives | Measurement | Target | Initiative |
|---|---|---|---|---|
| **Financial** | - Raise sales' revenues<br>- Increase number of stores | - Total revenues and royalties<br>- Average spending per customer | - Have 14 owned stores and 4 franchising stores<br>- Reach a 9€ to 10€ average spending per customer | - Continue to open stores<br>- Creation of franchisee partnership<br>- Training program and new product development |
| **Customer** | - Create more brand awareness<br>- Communicate brand positioning | - Market research<br>- Nº of visitors per year | - Generate brand awareness all over the country | - New brand communication strategy |
| **Internal** | -More competitive at costs<br>-More operational efficiency<br>-Better customer service<br>- Franchising coordination | - Procurement costs<br>- Cycle time of the production process<br>- Loyalty cards<br>- Regular communication with the franchisee | - Reduce 3% costs in procurement<br>- Reduce 5 seconds at the bottleneck<br>- Higher customer loyalty<br>- Successful franchising stores | - Distribution Center<br>- Training program<br>- Franchising manuals, training program and regular meetings |
| **Learning** | -The franchising model for international expansion<br>- Anticipate consumer trends | - Regular communication with the franchisee<br>- Market research | -Transfer and share best practices<br>- Increase identification with the brand through innovation and new product development | - Regular meetings with the franchisee<br>- Market research and new product development |

(Source: primary data)

## Risk Assessment

Finally, the risk assessment analysis provides a worst case scenario for each strategy and a contingency plan.

**Table 9 – Risk assessment**

| Objectives | Worst case scenario | Criticity level | Probability | Contingency plan |
|---|---|---|---|---|
| Raise sale's revenues and increase number of stores | Few vacancies in shopping centers and break in sales | Very High | Medium | Consider other shopping centers and define a new marketing plan |
| More brand awareness and brand positioning | Wrong perception and low brand awareness | High | Medium/High | Hire a new marketing manager, start a new brand communication program |
| More competitive at costs | No reduction in costs | High | High | Re-negotiate with the Distribution Center and the suppliers |
| More operational efficiency | Training program is a failure | High | Medium | Hire new professional training company |
| Better customer service | Training program is a failure | High | Medium | Hire new professional training company |
| Franchising coordination and learning | Franchising stores below performance. | Very high | High | Support and train franchisee, define strong manuals or ultimately search for a new franchisee |
| Anticipate consumer trends | No anticipation of consumer trends | Medium | Medium/High | Invest more in marketing research |

(Source: primary data)

## Conclusion and Recommendations

*Prego Gourmet* is a business with competitive advantages to grow in the Portuguese fast food industry. The company, however, is still at the beginning of its expansion strategy and needs to optimize its business model in order to grow through franchising, maximize opportunities and minimize threats. After analyzing the company and the industry, I realized that all business processes have margin for optimization.

I recommend *Prego Gourmet* to start working with a Distribution Center in order to reduce costs in procurement. The company should also start a new training program designed to reduce the cycle time of the production process and to improve customer service. *Prego Gourmet* should additionally start thinking about building more customer loyalty and increasing customers' average spending and therefore the training program should also be focused on that feature. I recommend as well *Prego Gourmet* to define a new brand communication strategy in order to transmit clearly its positioning and create a strong and consistent brand all over the country.

*Prego Gourmet* should grow in Portugal during 2013 through a mix strategy of franchising and company owned stores, because it is a proven model in the industry that allows quick development at lower costs. *Prego Gourmet* ought to carefully select a franchisee for the north of the country, supporting, controlling and coordinating all the stores. After 2013 the company may consider the same franchising model for other regions of the country like the south and the islands.

So far *Prego Gourmet* is starting to contribute to re-shape the Portuguese fast food industry, improving its image next to a customer which is becoming more demanding every day. By franchising in Portugal first, the company can learn and prepare better its future international expansion where the same strategy can prove to be successful as long as the company is able to overcome the challenges of internationalization.

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